U.S. Department of Housing and Urban Development
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December 29, 2009

MEMORANDUM NO:
2010-FW-1802

MEMORANDUM FOR: Richard Lopez
Field Office Director and Acting Director of Community Planning and Development, 6JM

//signed//
FROM: Gerald R. Kirkland
Regional Inspector General for Audit, Fort Worth Region, 6AGA

SUBJECT: The City of San Antonio, TX, Demonstrated Capacity To Administer Its Recovery Act Grant

INTRODUCTION

The City of San Antonio, TX (City), is scheduled to receive almost $10 million from the Department of Housing and Urban Development (HUD) under the American Recovery and Reinvestment Act of 2009 (Recovery Act). These funds do not include grants from other agencies. As part of our organization's commitment to ensure the proper use of these funds, we conducted a capacity review of the City's operations. Our objective was to determine whether the City had the capacity to account for Recovery Act funds and the controls to ensure that it expends those funds only for eligible program activities.

METHODOLOGY AND SCOPE

We limited our review to gaining an understanding of internal controls over the administration of Recovery Act funds, including Community Development Block Grant - Recovery (CDBG-R) and Homelessness Prevention and Rapid Re-Housing Program (HPRP) funds. As of October 1, 2009, the City had not issued a contract or spent any Recovery Act funds. Therefore, there were no expenditures or outputs and outcomes to verify. Our review period was October 1, 2007, through July 31, 2009, although we expanded the scope as necessary. We performed the review from July through October 2009. To accomplish our objective, we

- Reviewed Recovery Act documentation and funding agreements;
- Interviewed the City's management and staff and HUD staff;
- Reviewed City documentation such as policies and procedures, organizational charts, and job descriptions;
- Reviewed financial audit results; and

- Reviewed HUD's fiscal year 2009 risk analyses for several City programs including Community Development Block Grant (CDBG), HOME Investment Partnerships Program

(HOME), Emergency Shelter Grant (ESG), and Housing Opportunities for Persons with AIDS (HOPWA).

Our review of documentation was limited to our stated objective and should not be considered a detailed analysis of the City's internal controls or operations.

BACKGROUND

The Recovery Act became Public Law 111.5 on February 17, 2009. The Recovery Act makes supplemental appropriations for job preservation and creation, infrastructure, energy efficiency, science, assistance to the unemployed, State and local fiscal stabilization, and other purposes.

According to the Office of Management and Budget's (OMB) implementing guidance for Recovery Act funding, the following accountability objectives are applicable to the City's programs:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner;
- Funds are used for authorized purposes; and instances of fraud, waste, error, and abuse are mitigated;
- Projects funded under the Recovery Act avoid unnecessary delays and cost overruns; and
- Program goals are achieved, including specific program outcomes and improved results on broader economic indicators.

The City will receive almost $10 million in Recovery Act formula grant funding (see table below) and has applied for additional competitive funding.

Grant	Grant number	Amount
HPRP	S09-48-MY-0508	$5,974,286
CDBG-R	Allocation under Recovery Act	3,906,924
Total		**$9,881,210**

RESULTS OF REVIEW

Based upon the limited review, the City appeared to have the capacity to adequately administer its Recovery Act funding. It had written policies and procedures, a staffing plan including adequate segregation of duties, and a plan for using Recovery Act funding.

However, HUD's local field office determined that there was some risk in the City's programs funded through HUD's Office of Community Planning and Development (CPD), San Antonio, TX. The City's audited financial statements for fiscal year 2008 contained no findings related to capacity, but CPD's risk analyses for fiscal year 2009 indicated high to medium risk in four programs operated by the City—high risk in the City's CDBG program and medium risk in its HOME, ESG, and HOPWA programs.

The San Antonio CPD assessed the following to be significant risk factors for the City for fiscal year 2009:

- High funding levels for the programs;
- Incomplete activities and reporting errors, including inaccurate data in key compliance areas;
- Untimely fund commitment or violation of expenditure deadlines;
- Failure to use program income before using new funds;
- Inadequate or undetermined quality of monitoring of subrecipients by the City;
- Excessive findings from past HUD monitoring reviews;
- Other potential weaknesses, including the presence of program income, the City's use of subrecipients, City funding of a variety of eligible activities, a large number of projects with no recent activity, and recently hired key program staff who had no program training; and
- Lack of recent HUD monitoring.

According to CPD's risk analysis, most of the risk in the City's CDBG program was due to a very high funding level (more than $10 million in fiscal year 2009). If not for the high funding level, the City's CDBG program would have been medium risk, while the HOME, ESG, and HOPWA programs would have been medium to low risk.

We applied OMB's accountability objectives when considering CPD's significant risk factors. Based on the presence of written policies and procedures, written plans for the Recovery Act funds, the lack of capacity-related findings in the audited financial statements, and CPD's risk assessments, we believe that the City has the capacity to adequately administer its Recovery Act funding. However, based on CPD's risk assessments, the San Antonio, TX, CPD should closely monitor the City's spending of Recovery Act funds.

RECOMMENDATIONS

Since we did not identify any deficiencies, there are no recommendations.

Appendix A

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation | **Auditee Comments**

CITY OF SAN ANTONIO
CITY MANAGER'S OFFICE

TO: Gerald R. Kirkland; Regional Inspector General for Audit

FROM: A.J. Rodriguez, Deputy City Manager

COPY: Executive Leadership Team; Ben Gorzell, Finance Director; Maria Villagomez, Interim Management & Budget Director; Carlos Contreras, Intergovernmental Relations Director; Denis Cano, City Auditor

DATE: December 17, 2009

SUBJECT: **RESPONSE TO U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT INSPECTOR GENERAL REPORT ON THE CITY OF SAN ANTONIO'S DEMONSTRATED CAPACITY TO ADMINISTER RECOVERY ACT FORMULA GRANT FUNDS**

The City of San Antonio greatly appreciates the report provided by the Office of Inspector General, Region VI of the U.S. Department of Housing and Urban Development (HUD) which has determined that the City has the capacity to adequately administer funds from the American Reinvestment and Recovery Act of 2009 (ARRA). The report also cites that no deficiencies were found in (ARRA) documentation, policies and procedures, organizational charts, job descriptions, financial audit results, and in conducting interviews with city management staff.

ARRA funding awards have been received from a number of federal agencies such as the Department of Justice, the Department of Health and Human Services, the Department of Homeland Security, the Department of Energy, the Department of Housing and Urban Development, and the Federal Highway Administration. Currently, the City of San Antonio is estimated to receive approximately $160 million in ARRA funds. Of this amount, $125 million has currently been awarded to the City. The City of San Antonio fully intends to meet all expenditure deadlines outlined by each individual funding award criteria, while ensuring compliance with all federal, state, and local regulations.

Comment 1

The City of San Antonio has taken aggressive steps in ensuring adequate administration of the various grant opportunities provided through ARRA, which involves extensive collaboration between city departments, external consultants, sub-recipient partners, and citizens of San Antonio. The following strategies have been established to expedite the administration of our recovery awards and to reduce any possible risk factors associated with these funds.

Proper Use of Funds

With the tremendous opportunity to address a multitude of community needs with the currently estimated $160 million in Recovery funds, the City of San Antonio is carefully examining the adequate use of ARRA funds in accordance with the federal mandates from the various ARRA programs.

utilized in accordance with expenditure deadlines as outlined in the ARRA 2009 federal register; while being true to the intent of the funding which is to stimulate the economy through job creation and retention while provided critical needs of the community.

Management & Staff Collaboration

OIG Evaluation of Auditee Comments

Comment 1 We recognize the City's efforts to ensure adequate administration of its grant.